



CANADA

Inflation retreated in April

HIGHLIGHTS

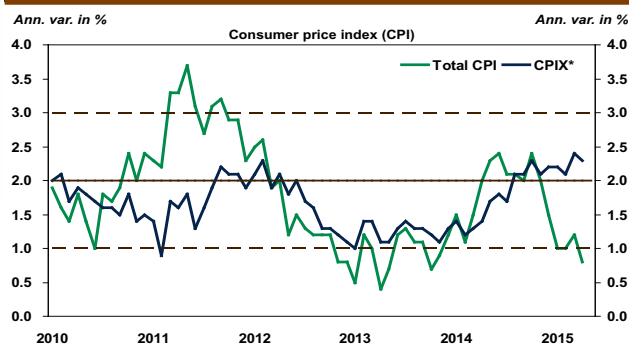
- The total consumer price index (CPI) slipped 0.1% in April. Most forecasters expected an increase in the month.
- The main components that contributed to the monthly decrease in total CPI are travel tours (-13.0%), natural gas (-8.0%), purchase of passenger vehicles (-0.6%), fresh vegetables (-2.7%) and fresh fruit (-3.1%).
- In contrast, the main components that contributed positively to the monthly change in total CPI are air transportation (+2.3%), electricity (+1.0%), homeowners' home and mortgage insurance (+1.4%), furniture (+1.8%) and traveller accommodation (+1.6%).
- The total annual inflation rate went from 1.2% to 0.8%.
- The Bank of Canada's core index (CPIX), which excludes eight volatile components, advanced 0.1% in April, while its annual change fell to 2.3% from March's 2.4%.
- Data on retail sales released by Statistics Canada this morning show an increase of 0.7% in March. A major part of this increase stems from price increases during the month. Expressed in real terms, retail sales only grew 0.1%.

COMMENTS

Total CPI's decrease in April was rather surprising. On one hand, the monthly change is typically positively affected by seasonal price fluctuations in April. But the impact of seasonal effects is practically nonexistent this time around. On the other, the seasonally-adjusted monthly change (which gives a good indication of price trends) fell 0.08% in April, a much weaker result than seen in February (+0.24%) and in March (+0.32%). This suggests that the pass-through effect from the impact of the Canadian dollar's depreciation on the prices of certain imported goods and services is beginning to diminish, particularly for clothing. We will have to wait and see, however, the results for the coming months to confirm this change in trend.

With April's results, the total annual inflation rate dropped back below the Bank of Canada's lower target (1.0%). According to our projections, it could stay there for a few

Total inflation drops back below the bottom of the target



* Bank of Canada core index.
Sources: Statistics Canada and Desjardins, Economic Studies

months despite a stronger contribution from gas prices in May. That said, the annual change in CPIX has been holding fairly steady between 2.1% and 2.4% since August 2014.

Implications: In keeping with recent months, the Bank of Canada will not show itself to be overly concerned by the weakness in total inflation, which is still overcoming some temporary effects. Monetary authorities should therefore keep their focus on core inflation, which continues to hover around the median target. This argues in favour of holding to the status quo for key interest rates.

Benoit P. Durocher
Senior Economist

François Dupuis
Vice-President and Chief Economist

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com